

NO CREDIT, NO GROWTH

WEB BUZZ 2008.08.04

The financial community seems to only care about whether or not expectations are met. For example, the jobs report for July came in at 51,000 jobs lost, which was better than expected. The market was forecasting a 70,000 loss. This immediately caused the stock market to move upward and government bonds to decline. It may be that this reverses before the end of the day. Be that as it may, this has been the pattern over the last year. This seems to us to be more of a game than reality investing. Day to day guessing is for traders, not for those with a longer-term horizon.

Below you will see a chart showing the long-term picture, which will have a major impact on the value of various securities. The U.S. economy has been heavily dependant upon credit for lo these many years. Any disruption in its flow to the private sector will seriously damage any growth prospects. This lack of flow is becoming more and more evident as each month passes. The number of new bond issues hit a new low in July. Also, the cost of interest to the few issues that came to market is escalating. The credit markets are in serious trouble. Nothing good can come of this.

Be cautious—only the highest-quality asset is worth owning.

Credit Difficulties

As banks have tightened lending in response to big mortgage losses, they are issuing fewer loans to companies and are charging more. That could affect companies' ability to hire and expand.



Sources: Federal Reserve Board, via Haver Analytics; Bloomberg

Adapted from www.nytimes.com